

SERVICE DATE – OCTOBER 17, 2013

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 17)

RAILROAD REVENUE ADEQUACY—2012 DETERMINATION

Digest:<sup>1</sup> The Board finds that two Class I railroads (Norfolk Southern Combined Railroad Subsidiaries and Union Pacific Railroad Company) are revenue adequate for the year 2012, meaning that two of the Class I railroads achieved a rate of return equal to or greater than the Board's calculation of the average cost of capital to the freight rail industry.

Decided: September 30, 2013

This annual determination of railroad revenue adequacy under 49 U.S.C. § 10704(a)(3) is made in accordance with the standards and procedures developed in Standards for Railroad Revenue Adequacy (Standards I), 364 I.C.C. 803 (1981), Standards for Railroad Revenue Adequacy (Standards II), 3 I.C.C. 2d 261 (1986), and Supplemental Reporting of Consolidated Information for Revenue Adequacy (Supplemental Reporting), 5 I.C.C. 2d 65 (1988). Pursuant to those procedures, which are essentially mechanical, a railroad is considered revenue adequate under 49 U.S.C. § 10704(a) if it achieves a rate of return on net investment (ROI) equal to at least the current cost of capital for the railroad industry.

In Railroad Cost of Capital—2012, EP 558 (Sub-No. 16) (STB served Aug. 30, 2013), we determined that the 2012 railroad industry cost of capital was 11.12%. By comparing this figure to the 2012 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have calculated a revenue adequacy figure for each of the Class I freight railroads that were in operation as of December 31, 2012, other than for BNSF Railway Company (BNSF).<sup>2</sup>

A summary of the ROIs for all Class I railroads except for BNSF is set forth in Appendix A to this decision. Appendix B provides those railroads' R-1 Schedule 250 data that was used to

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<sup>1</sup> The digest constitutes no part of the decision of the Board but has been prepared for the convenience of the reader. It may not be cited to or relied upon as precedent. Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

<sup>2</sup> The Board has not calculated BNSF's 2012 revenue adequacy in this decision, because BNSF is due to refile its R-1 reports for 2010, 2011, and 2012 by October 23, 2013, in compliance with the Board's order in Western Coal Traffic League—Petition for Declaratory Order, FD 35506 (STB served July 25, 2013). Following receipt and verification of BNSF's revised R-1 reports, the Board will reissue BNSF's 2010 and 2011 revenue adequacy calculations, and will issue its 2012 calculation.

compute the ROIs. We find two carriers (Norfolk Southern Combined Railroad Subsidiaries<sup>3</sup> and Union Pacific Railroad Company) to be revenue adequate for 2012. Our findings will be final on the effective date of this decision.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. This decision is effective on October 17, 2013.
2. Notice of this decision will be published in the Federal Register.

By the Board, Chairman Elliott, Vice Chairman Begeman, and Commissioner Mulvey.

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<sup>3</sup> Pursuant to Standards I, Standards II, and Supplemental Reporting, revenue adequacy determinations for Class I carriers are made on a system-wide basis, which includes certain railroad affiliates.

## APPENDIX A

<b>Railroad</b>	<b>ROI</b>
BNSF Railway Company <sup>4</sup>	TBD
CSX Transportation, Inc.	10.81%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	10.19%
Kansas City Southern Railway Company	9.54%
Norfolk Southern Combined Railroad Subsidiaries	11.48%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	5.15%
Union Pacific Railroad Company	14.69%

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<sup>4</sup> See n. 2.

## APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	TBD	1,757,154	696,009	227,333	1,866,382	159,458	4,039,060
Add: Interest Income from Working Capital Allowance – Cash Portion	TBD	16	132	239	533	43	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	TBD	18,257	1,531	44	33,978	(737)	67,788
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	TBD	31,062	216	43	2,941	(12,608)	13,003
<b>** Adjusted Net Railway Operating Income **</b>	<b>TBD</b>	<b>1,806,489</b>	<b>697,888</b>	<b>227,659</b>	<b>1,903,834</b>	<b>146,156</b>	<b>4,119,851</b>
<b>** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **</b>							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	TBD	24,470,837	10,055,224	3,117,098	24,572,800	3,958,749	40,102,455
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	TBD	23,920,332	9,760,234	2,841,407	23,346,518	3,889,931	38,392,908
<b>Combined Investment in Railroad Property Used in Transportation Service – Average</b>	<b>TBD</b>	<b>24,195,585</b>	<b>9,907,729</b>	<b>2,979,253</b>	<b>23,959,659</b>	<b>3,924,340</b>	<b>39,247,682</b>
Other Elements of Investment – Ending Balance	TBD	0	1,863	0	0	1,135	0
Other Elements of Investment – Beginning Balance	TBD	0	1,863	0	0	1,135	0
<b>Other Elements of Investment – Average</b>	<b>TBD</b>	<b>0</b>	<b>1,863</b>	<b>0</b>	<b>0</b>	<b>1,135</b>	<b>0</b>
Interest During Construction – Ending Balance	TBD	0	2,113	4,320	2,580	2,626	43,295
Interest During Construction – Beginning Balance	TBD	0	2,113	4,320	2,580	21,504	43,302
<b>Interest During Construction – Average</b>	<b>TBD</b>	<b>0</b>	<b>2,113</b>	<b>4,320</b>	<b>2,580</b>	<b>12,065</b>	<b>43,299</b>
Net Rail Assets of Rail Related Affiliates – Ending Balance	TBD	0	141,883	4,155	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	TBD	0	143,737	3,246	0	0	0
<b>Net Rail Assets of Rail Related Affiliates – Average</b>	<b>TBD</b>	<b>0</b>	<b>142,810</b>	<b>3,701</b>	<b>0</b>	<b>0</b>	<b>0</b>
Working Capital Allowance – Ending Balance	TBD	289,227	73,221	92,300	830,664	137,428	972,578
Working Capital Allowance – Beginning Balance	TBD	239,548	36,233	73,782	479,292	38,109	971,985
<b>Working Capital Allowance – Average</b>	<b>TBD</b>	<b>264,388</b>	<b>54,727</b>	<b>83,041</b>	<b>654,978</b>	<b>87,769</b>	<b>972,282</b>
Accumulated Deferred Income Tax Credits – Ending Balance	TBD	7,924,005	3,289,708	678,074	8,123,071	1,188,572	12,474,139
Accumulated Deferred Income Tax Credits – Beginning Balance	TBD	7,576,556	3,217,372	673,659	7,943,800	1,132,870	11,789,873
<b>Accumulated Deferred Income Tax Credits – Average</b>	<b>TBD</b>	<b>7,750,281</b>	<b>3,253,540</b>	<b>675,867</b>	<b>8,033,436</b>	<b>1,160,721</b>	<b>12,132,006</b>
Tax Adjusted Net Investment Base – Ending Balance	TBD	16,836,059	6,976,644	2,531,159	17,277,813	2,903,844	28,557,599
Tax Adjusted Net Investment Base – Beginning Balance	TBD	16,583,324	6,718,856	2,240,456	15,879,430	2,772,531	27,531,718
<b>* Tax Adjusted Net Investment Base *</b>	<b>TBD</b>	<b>16,709,692</b>	<b>6,847,750</b>	<b>2,385,808</b>	<b>16,578,622</b>	<b>2,838,188</b>	<b>28,044,659</b>
<b>TAX ADJUSTED RETURN ON INVESTMENT</b>	<b>TBD</b>	<b>10.81%</b>	<b>10.19%</b>	<b>9.54%</b>	<b>11.48%</b>	<b>5.15%</b>	<b>14.69%</b>

The line item descriptions in this schedule are defined in the instructions to the Schedule 250 appearing in Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes, 5. I.C.C. 2d 65, 80-82 (1988). The Schedule 250 form and instructions are not published in the Code of Federal Regulations.